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Programme budget for the biennium 2002-2003

Second performance report on the programme budget for the biennium 2002-2003

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the second report of the Secretary-General on the performance of the programme budget of the United Nations for the biennium 2002-2003 (A/58/558 and Add.1). During its consideration of the report, the Advisory Committee met with representatives of the Secretary-General who provided it with additional information and clarification.

Financial performance for the biennium 2002-2003

2. As in the past, the report of the Secretary-General covers only financial aspects of performance. In this connection, the Advisory Committee recalls its previous view on programme and financial performance (A/58/7, para. 18):

> "**The Advisory Committee is of the opinion that the current practice of reporting on programme and financial performance separately and on separate cycles needs to be reformed to make it consistent with and supportive of result-based budgeting. The Committee therefore recommends that a single report be issued that would cover both programme and financial performance for the same period. Such reports should be available for use during the formulation and consideration of the proposed programme budget. Accordingly, the Committee recommends that the first trial report be produced in time for submission to the General Assembly at the first part of its fifty-ninth session.**"

3. The Advisory Committee was informed, upon enquiry, that a report of the Secretary-General on programme and financial performance for the biennium 2002-2003 that would be consistent with and supportive of results-based budgeting would be submitted through the Committee for Programme and Coordination to the General Assembly at its fifty-ninth session.

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4. The anticipated final level of expenditures and income for the biennium 2002-2003 is based on actual expenditures for the first 20 months, projected requirements for the last 4 months and changes in inflation and exchange rates and cost-of-living adjustments as compared with the assumptions made in the first performance report on the programme budget for the biennium 2002-2003 (A/57/616). The Advisory Committee recalls that, in 1997, it had recommended that the Secretariat should attempt to base performance reporting on actual expenditures for the first 21 months (see A/52/742, para. 10). The recommendation was subsequently reiterated in the eighth report of the Committee to the fifty-fourth session of the General Assembly (A/54/7/Add.7, para. 4). **The Advisory Committee requests that information be provided to the Fifth Committee as to how the Secretariat intends to implement the Committee's recommendation.**

5. The Advisory Committee notes that the anticipated final level of expenditures and of income for the biennium represents a net increase of $49.6 million compared with the revised appropriations and estimates of income approved by the General Assembly in its resolutions 57/293 of 20 December 2002 and 57/311 of 18 June 2003. The projected expenditure for the biennium 2002-2003 is estimated at $2,953.9 million gross, an increase of $62.8 million compared with the revised appropriation of $2,891.1 million for the biennium. The projected income is estimated at $427.6 million, an increase of $13.2 million compared with the revised income estimates of $414.4 million for the biennium.

6. The net increase of $49.6 million reflects the combined effects of: (a) projected additional requirements of $86.5 million due to changes in exchange rates ($59.1 million), changes in inflation ($7.7 million), commitments entered into in accordance with the provisions of General Assembly resolution 56/256 of 24 December 2001 on unforeseen and extraordinary expenses and in respect of the requirements for conference and support servicing of the Counter-Terrorism Committee ($19.7 million) and (b) reduced requirements of $36.9 million due to variations in post costs and adjustments to other objects of expenditure, based on actual anticipated requirements ($23.7 million) and an increase in income ($13.2 million).

7. Explanations regarding the additional requirements relating to changes in exchange rates ($59.1 million) and changes in inflation ($7.7 million) are given in the performance report (A/58/558, paras. 6-12), as are details regarding the assumed and actual rates of exchange (ibid., schedules 4 and 5) as well as information on changes in exchange rates and inflation by duty station (ibid., table 4).

8. The Advisory Committee notes from the report (ibid., para. 7) that, in estimating the effect of exchange rate changes experienced in 2003, the realized exchange rates from January to October 2003 were used, with the October rate applied to November and December. Moreover, the Committee notes that, consistent with approved methodology, the average 2002 rates of exchange, which allowed for the lowest estimates, were used in calculating the revised appropriation for 2003 for the first performance report for the biennium 2002-2003 (A/57/616). The experience of 2003 in respect of the Swiss franc and the euro has been a continuation of the downward trend from the rates in effect at the end of 2002. Therefore, the projection of an average has not been borne out by actual experience in 2003, thus resulting in the need to significantly adjust resource requirements.

9. Detailed information on the total additional requirements of $19.7 million relating to commitments entered into in accordance with the provisions of General Assembly resolution 56/256 on unforeseen and extraordinary expenses is contained in the report (A/58/558, paras. 16-22) With regard to additional requirements of $923,300 under section 7, International Court of Justice (see A/58/558, para. 16 (c)), the Advisory Committee notes that the reported requirements of $607,400 for pension, travel and removal expenses of retiring judges and installation grants exceed, by $197,400, the commitments ($410,000) authorized under the terms of paragraph 1 (b) (iv) of General Assembly resolution 56/256. **The Advisory Committee requests that the Secretariat review whether the amount of $410,000 for such commitments currently authorized under the terms of paragraph 1 (b) (iv) of General Assembly resolution 56/256 is adequate and, if necessary, propose the required adjustment.**

10. Information on the projected reduced requirements of $23.7 million in post incumbency and other changes is provided in the performance report (A/58/588, paras. 23-43, and schedules 1-3 and 6 and 8). The realized vacancy rate for the Professional category and above was 6.2 per cent, lower than the approved budgeted rate of 6.5 per cent, while the realized vacancy rate for the General Service category was 3.4 per cent, higher than the approved budgeted rate of 3.1 per cent (A/58/558, para. 26).

11. The average realized vacancy rates for the Professional category and above in several budget sections (5, 16, 19 and 22) were above budgeted levels, reflecting, inter alia, delays in recruitment, appointment and/or promotion to posts, separations, and temporary placement of staff against posts at a higher level (A/58/558, para. 28). **The Advisory Committee notes with concern that, under section 16, Economic Commission for Africa, the vacancy rates for the Professional category continue to be exceptionally high. The Committee is of the view that special measures should be taken on an urgent basis to address the problem of the persistent high vacancy rates at the Economic Commission for Africa.**

12. The Advisory Committee notes that, in response to its previous recommendation, the performance report indicates the amount of unliquidated obligations included in estimated expenditures for the biennium (A/58/558, para. 44). **The Advisory Committee welcomes the fact that unliquidated obligations for the biennium 2002-2003 of $99.7 million are significantly lower, compared with the amount reported as at the end of September 2001 ($161.7 million).**

13. No indication is provided in the report of any savings resulting from efficiency measures that could have been transferred to the Development Account in accordance with established procedures. **The Advisory Committee requests that this information be provided to the Fifth Committee.**

14. Schedule 3 of the performance report provides a summary of projected expenditures for each budget section by object of expenditure and main determining factor, including travel estimates. **The Advisory Committee notes, however, that the report does not separately indicate variances in travel expenses relating to travel of representatives and travel of staff, although the Committee had recommended that this information should be included in future performance reports (see A/56/694, para. 13). The Committee requests that the Secretariat provide this information to the Fifth Committee.**

Review of the United Nations Postal Administration

15. The General Assembly, in section VI of its resolution 57/292 of 20 December 2002, noted with deep concern the serious and continuing deterioration in the business of the United Nations Postal Administration and requested the Secretary-General to ensure, as a matter of priority, that the downward trend in the business of the Postal Administration be reversed, considering all possible courses of action for the future conduct of its business, and to report thereon to the General Assembly in the context of the second performance report for the biennium 2002-2003. Information on review of the Postal Administration is contained in the addendum to the Secretary-General's second performance report (A/58/558/Add.1).

16. According to the Secretary-General, a comprehensive review of the operations of the Postal Administration has been undertaken, with the involvement of an outside consultant specializing in philatelic market operations, and a number of recommendations stemming from the review have been or are currently in the process of being implemented. The report contains information on problem analysis measures taken to improve operations (A/58/558/Add.1, paras. 8-21).

17. The Advisory Committee notes from paragraph 23 of the report that initiatives taken to reverse the downward trend in the revenues of the Postal Administration have already shown encouraging results: the operations have been streamlined; the organizational structure is now simpler and more effective; and it is estimated that the negative financial trends of 2002 will be turned around and the Postal Administration will achieve a modest surplus of $189,000 in the current biennium.

18. The Advisory Committee further notes there is a proposal in the report (A/58/558/Add.1, para. 24) to change the present arrangements whereby net surplus from the revenue-producing activities under Income section 3, Services to the public, is used to help offset the expenditure part of the regular budget. According to the proposal, the surplus would be credited to a reserve fund to be established effective as from the biennium 2004-2005. The proposal, if accepted, would require that the General Assembly grant an exception to financial rule 103.7. The Advisory Committee was informed, upon enquiry, that the size of such a reserve fund has not yet been accurately determined.

19. According to the Secretariat, the surplus accumulated in the reserve fund would be used to meet contingent liability of the Postal Administration. The issue of the contingent liability of the Postal Administration is explained in the Secretary-General's report (A/58/558/Add.1, paras. 10 and 11). The Secretariat indicates that while, in the past, only a small percentage of United Nations stamps sold were actually used for postage by customers, the percentage of postage charges paid to the United States Postal Service of the gross stamp sale revenue increased from 6 per cent in 1980 to 18 per cent in 2002; more importantly, the United Nations is now incurring expenditures for products sold in past periods for which the accounts have been closed. The Advisory Committee sought information on the estimated amount of contingent liability and was informed that no accurate estimates were available at this stage. However, the estimates would be provided to the Advisory Committee and to the Fifth Committee as soon as they become available.

20. The Advisory Committee was informed that negotiations are under way between the United Nations Postal Administration and the postal authorities of the United States of America, Switzerland and Austria, with a view to obtaining more

favourable agreements that may also positively impact on contingent liabilities of the Postal Administration. **The Advisory Committee encourages the administration to take further efforts to achieve success in these negotiations.**

21. **In the meantime, the Advisory Committee recommends that the current arrangements for accounting for the sale of United Nations stamps be continued.**

Status of work in the implementation of measures to strengthen the security and safety of United Nations premises

22. Information on the status of work in the implementation of measures to strengthen the security and safety of United Nations premises summarizes the work undertaken and/or planned by the Secretariat during 2003. Earlier, information on progress in the implementation of those measures during 2002 and the status of expenditures as of 31 October 2002 was included in the first performance report on the programme budget for the biennium 2002-2003 (A/57/616).

23. The Advisory Committee was informed that the Secretary-General is currently considering what additional measures need to be taken to improve the security and safety of United Nations premises and its personnel. According to the Secretariat, a report on such measures, with the indication of all additional requirements for the biennium 2004-2005, will be submitted to the resumed session of the Fifth Committee in the spring of 2004. The Committee intends to present its comments and recommendations on the issue of security and safety of United Nations premises and personnel in the context of its review of the forthcoming report of the Secretary-General.